

INDIANA PORT COMMISSION

FINANCIAL STATEMENTS

December 31, 2004 and 2003

INDIANA PORT COMMISSION
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2004 and 2003

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS.....	10
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS.....	13
SUPPLEMENTAL SCHEDULE	
SCHEDULE OF PORT INCOME FROM OPERATIONS.....	23
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET.....	24
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	25



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

The Members of the Commission
Indiana Port Commission
Indianapolis, Indiana

We have audited the accompanying statements of net assets of the Indiana Port Commission as of December 31, 2004 and 2003, and the related statements of revenues and expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Indiana Port Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Port Commission as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2005, on our consideration of the Indiana Port Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Indiana Port Commission taken as a whole. The accompanying schedule of port income from operations and the schedule of actual operating expenses compared to budget for the year ended December 31, 2004, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
February 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

This section of the Port's annual financial report presents a discussion and analysis of the Commission's financial performance for the calendar year ended December 31, 2004. Please read it in conjunction with the Commission's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Commission's net assets increased by approximately \$2,633,000. Operating income before depreciation was approximately \$2,443,000.

The Commission received approximately \$2,240,000 of capital contributions from the State of Indiana for use in construction projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements and reports on compliance and internal control over financial reporting.

The Commission's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Commission are included in the Statement of Net Assets.

The financial statements provide both long and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2004

FINANCIAL ANALYSIS

Net Assets

The Commission's total assets at December 31, 2004, reached approximately \$88,875,000. This represents an increase of \$2,150,000 or 2.48 percent from the prior year. Total liabilities amounted to \$843,000; a decrease of \$485,000 or 36.45 percent and total net assets amounted to \$88,000,000, an increase of \$2,600,000 or 3.08 percent (See Table 1).

Table 1			
Net Assets			
	<u>2004</u>	<u>2003</u>	<u>Percentage</u> <u>Change</u>
Assets:			
Current Assets	\$13,562,466	\$ 13,353,831	1.56%
Property (net)	73,970,750	71,919,483	2.85%
Other Assets	1,342,357	1,452,764	(7.60)%
Total Assets	<u>88,875,573</u>	<u>86,726,078</u>	<u>2.48%</u>
Liabilities:			
Current Liabilities	793,205	1,264,300	(37.26)%
Non-current Liabilities	49,351	61,573	(19.85)%
Total Liabilities	<u>842,556</u>	<u>1,325,873</u>	<u>(36.45)%</u>
Net Assets:			
Invested in capital assets	75,313,107	73,372,247	2.64%
Reserved for security equipment and infrastructure protection	1,173,010	-	100.0%
Unrestricted:			
Designated	10,800,000	10,800,000	0.0%
Undesignated	746,900	1,227,958	39.18%
Total Net Assets	<u>88,033,017</u>	<u>85,400,205</u>	<u>3.08%</u>
Total Liabilities and Net Assets	<u>\$88,875,573</u>	<u>\$ 86,726,078</u>	<u>2.48%</u>

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2004

Changes in Net Assets

The change in net assets at December 31, 2004, was an increase of \$2,635,000 or 3.08 percent. The Commission's total operating revenues increased by approximately \$667,000 or 11.59 percent. Total operating expenses decreased \$843,000 or 11.69 percent. The changes in net assets are detailed in Table 2 and operating expenses are detailed in Table 3.

<p style="text-align: center;">Table 2 Changes in Net Assets</p>			
	<u>2004</u>	<u>2003</u>	<u>Percentage</u> <u>Change</u>
Operating Revenues:			
Maritime Services	\$ 6,240,162	\$ 5,513,358	13.19%
Other	182,836	242,717	(24.67)%
Total operating revenues	6,422,998	5,756,075	11.59%
Operating Expenses:			
Operating Expenses	3,979,550	4,847,378	(17.90)%
Depreciation	2,385,584	2,360,476	1.06%
Total Operating Expenses	6,365,134	7,207,854	(11.69)%
Operating income gain/(loss)	57,864	(1,451,779)	103.98%
Non-operating revenues (expenses)	335,445	304,364	10.21%
Capital revenues from state and private programs	2,239,503	767,261	191.88%
Change in net assets	2,632,812	(380,154)	792.56%
Total net assets, beginning of year	85,400,205	85,780,359	
Total net assets, end of year	\$ 88,033,017	\$ 85,400,205	3.08%

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2004

Revenues: Operating revenues from Maritime Services increased by \$727,000 or 13.19 percent. This increase resulted from new tenants at the ports and an increase in tonnage moving across the docks at all locations. This year was our highest tonnage volume in one year since 1998. A volume sharing agreement between the stevedore at Burns Harbor/Portage and the Commission had a major effect on this increase from the prior year. The agreement requires the sharing of the fees after the tonnage reaches a stated volume, which was reached during the 2004 year. At the beginning of the year the Transit Shed located at Southwind Maritime Center was leased to a third party operator transferring that specific income from Other Operating Income to Maritime Services as lease payments. Due to this shift in income Other Operating Fees decreased by \$60,000 or 24.67 percent for the year.

Non-operating revenues (expenses) have increased approximately \$30,000 or 10.21 percent. Within this category, interest income from investments declined approximately \$60,000 or 15.19 percent because of falling interest rates. Non-operating expenses have decreased \$90,000 due to a 2003 payment to a tenant to help defray the cost of relocating its operations to a more suitable space.

Capital contributions increased by approximately \$1,475,000 or 191.88 percent. Appropriations for specific capital projects are made to the Commission by the legislature of the State of Indiana. The Commission then receives approval and the allocation of the funds from the State Budget Agency. Once the funds have been allotted, the Commission may request reimbursement of funds disbursed in connection with the specific project. During the current year, the Commission requested and received reimbursements in the amount of \$1,065,000 from the State Budget Agency. During the current year, the State Emergency Management Agency (SEMA) disbursed \$1,173,000 to the Commission to help defray the cost of security systems and equipment required by the United States Coast Guard.

Expenses: Total operating expenses decreased \$845,000 or 11.69 percent. Operating expenses, not including depreciation, decreased 17.9 percent, primarily due to streamlining expenses where possible. The small increase in depreciation expense corresponds with the amounts of projects completed and capitalized within the last few years.

There are four accounts with significant variances from the prior year which management believes warrant a more detailed explanation. They are legal services, other professional services, insurance and maintenance expense.

- Legal services decreased 76.03 percent, or \$95,000. During 2003, we received consultant assistance in the form of preparation and review of documents relating to our legislative initiatives.
- Other professional services decreased 80.47 percent, or \$810,000. During 2003, economic development research and statistical projects were initiated regarding the two business initiatives granted to the Commission by the state legislature.

INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2004

- The cost of liability and property insurance decreased 14.32 percent, or \$45,000. The federal government has established guidelines and caps (ceilings) for insurance companies regarding catastrophic insurance coverage. This has provided the companies a better measure of the upper limits for required reserves enabling them to decrease premiums. Our broker has also indicated the premiums had decreased due to our loss experience and control efforts.
- Maintenance costs increased by \$57,000, or 29.09 percent. During the year, inspections of the cells located at the river ports have shown extended wear and corrosion of the steel walls. This has weakened the overall structure and immediate repairs were needed to reinforce the cells. Major repairs and upgrades to these assets have been budgeted in the near future.

Table 3
Operating Expenses

	<u>2004</u>	<u>2003</u>	<u>Percentage</u> <u>Change</u>
Labor and Fringe Benefits	\$ 2,371,158	\$ 2,306,312	2.81%
Travel and Training	185,183	205,106	(9.71)%
Security Services	133,862	148,388	(9.79)%
Legal Services	30,105	125,587	(76.03)%
Accounting Services	24,900	25,000	(.40)%
Computer Services	30,969	24,833	24.71%
Other Professional Services	196,747	1,007,197	(80.47)%
Advertising and Public Relations	85,153	96,316	(11.59)%
Insurance	252,893	295,157	(14.32)%
Property Rentals	87,869	77,911	12.78%
Office Expenses	139,556	143,863	(2.99)%
Business Association Memberships	56,778	63,936	(11.20)%
Utilities	91,252	112,424	(18.83)%
Maintenance	253,650	196,483	29.09%
Bad Debts	29,815	-	100.00%
Other	9,660	18,865	(48.79)%
Depreciation	2,385,584	2,360,476	1.06%
Total Operating Expenses	<u>\$ 6,365,134</u>	<u>\$ 7,207,854</u>	<u>(11.69)%</u>

**INDIANA PORT COMMISSION
INDIANAPOLIS, INDIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004, the Commission had invested \$75,315,000 in capital assets and related assets, net of accumulated depreciation. As compared to the prior year, this amount represents a net increase (including additions and disposals) of \$1,940,000. During the year, the Commission purchased approximately 66 acres adjacent to the Clark Maritime Center. This purchase extends and protects the western boundary of the port and allows additional access to property located near Middle Road. The remainder of such increase is primarily attributed to the construction of the new berths at Southwind Maritime Center and infrastructure supporting the port system.

There is no outstanding debt other than construction related payables of \$385,000 and \$785,000 at December 31, 2004 and 2003.

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on the Commission and its customers, there are no significant facts, decisions or conditions that are expected that management believes will have a significant impact on the financial position or results of operations.

* * * * *

This financial report was designed to provide our stakeholders, patrons, and other interested parties with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Commission at (317) 232-9200.

INDIANA PORT COMMISSION
STATEMENTS OF NET ASSETS
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 5,542,160	\$ 5,338,262
Investments (Note 2)	5,000,195	5,014,607
Accrued interest receivable	70,768	122,214
Trade accounts receivable, net allowance of \$0 in 2004 and 2003	640,594	495,461
Notes receivable	1,015,614	1,025,828
Other receivables	1,055,235	1,085,122
Prepaid expenses	<u>237,900</u>	<u>272,337</u>
Total current assets	<u>13,562,466</u>	<u>13,353,831</u>
Property and equipment (Note 3)	119,979,853	115,543,002
Accumulated depreciation	<u>(46,009,103)</u>	<u>(43,623,519)</u>
	73,970,750	71,919,483
Long-term net investment in direct financing leases (Note 4)	<u>1,342,357</u>	<u>1,452,764</u>
	<u>\$ 88,875,573</u>	<u>\$ 86,726,078</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accrued expenses	\$ 396,708	\$ 467,201
Contracts and retainage payable	384,275	785,585
Accrued litigation expense	<u>12,222</u>	<u>11,514</u>
Total current liabilities	793,205	1,264,300
Other liabilities		
Long-term accrued litigation expense	<u>49,351</u>	<u>61,573</u>
	842,556	1,325,873
Net Assets		
Invested in capital assets	75,313,107	73,372,247
Restricted for security equipment and infrastructure protection (Note 1)	1,173,010	-
Unrestricted:		
Designated (Note 1)	10,800,000	10,800,000
Undesignated	<u>746,900</u>	<u>1,227,958</u>
	<u>88,033,017</u>	<u>85,400,205</u>
	<u>\$ 88,875,573</u>	<u>\$ 86,726,078</u>

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues		
Maritime services	\$ 2,070,461	\$ 1,741,158
Facility rentals and storage	3,754,241	3,393,005
User fees	415,460	379,195
Foreign trade zone fees	97,063	106,340
Other	<u>85,773</u>	<u>136,377</u>
	6,422,998	5,756,075
 Operating expenses before depreciation	 <u>3,979,550</u>	 <u>4,847,378</u>
 Operating income before depreciation	 2,443,448	 908,697
 Depreciation expense	 <u>2,385,584</u>	 <u>2,360,476</u>
 Operating income (loss)	 57,864	 (1,451,779)
 Non-operating revenues (expenses)		
Net interest income	333,945	391,870
Gain on property dispositions	1,500	2,700
Other income (expense)	<u>-</u>	<u>(90,206)</u>
	<u>335,445</u>	<u>304,364</u>
 Income before capital contributions	 393,309	 (1,147,415)
 Capital contributions	 <u>2,239,503</u>	 <u>767,261</u>
 Change in net assets	 2,632,812	 (380,154)
 Net assets, at beginning of year	 <u>85,400,205</u>	 <u>85,780,359</u>
 Net assets, at end of year	 <u><u>\$ 88,033,017</u></u>	 <u><u>\$ 85,400,205</u></u>

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 6,277,865	\$ 5,731,352
Payments to suppliers	(1,630,094)	(2,577,147)
Payments to employees	(1,809,357)	(1,750,509)
Payments of benefits on behalf of employees	<u>(576,155)</u>	<u>(528,238)</u>
Net cash provided by operating activities	2,262,259	875,458
Cash flows from capital and related financing activities:		
Contributed capital from state government and others	2,239,503	767,261
Proceeds from direct financing leases	110,405	102,214
Proceeds on notes and other receivables	40,101	(42,052)
Payments on litigation settlement	(11,514)	(10,851)
Expenditures for acquisitions and construction of capital assets	<u>(4,836,564)</u>	<u>(8,238,970)</u>
Net cash provided by (used in) capital and related financing	(2,458,069)	(7,422,398)
Cash flows from investment activities:		
Purchase of investments	(5,000,000)	(5,000,000)
Proceeds from sales and maturities of investments	5,014,412	5,526,181
Investment income received	<u>385,296</u>	<u>412,771</u>
Net cash provided by investment activities	<u>399,708</u>	<u>938,952</u>
Net increase (decrease) in cash and cash equivalents	203,898	(5,607,988)
Cash and cash equivalents, beginning of year	<u>5,338,262</u>	<u>10,946,250</u>
Cash and cash equivalents, end of year	<u>\$ 5,542,160</u>	<u>\$ 5,338,262</u>
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 57,864	\$ (1,451,779)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	2,385,584	2,360,476
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	(145,133)	(7,930)
Accounts payable	(70,493)	(147,337)
Prepaid expenses	<u>34,437</u>	<u>122,028</u>
Net cash provided by operating activities	<u>\$ 2,262,259</u>	<u>\$ 875,458</u>

2004 and 2003 Noncash activities: The Indiana Port Commission had contracts and retainage payable on capital assets of \$384,277 and \$785,585 at December 31, 2004 and 2003.

See accompanying notes to financial statements.

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana Port Commission (Commission) is a body both Corporate and Politic created under Indiana Code Section 8-10-1-3 enacted by the General Assembly of the State of Indiana. The Commission is authorized to construct, maintain and operate public ports with terminal facilities and traffic exchange points for all forms of transportation on Lake Michigan and the Ohio and Wabash Rivers. The Commission consists of seven members appointed by the Governor. Accordingly, it is a component unit of the State of Indiana. Operating funds are derived from port activities, however, the majority of capital funds are provided by the state and the federal government.

The Commission's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include all the accounts of the Commission and its subsidiary, The Indiana Ports Railroad Holding Corporation (Railroad Holding Corporation). The Railroad Holding Corporation is a not-for-profit entity, which is the parent of the wholly owned subsidiaries of Clark Shortline Railroad Co., Burns Harbor Shortline Railroad Co., and Southwind Railroad Co. All significant intercompany transactions have been eliminated.

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Commission accounts are organized into a single proprietary fund. The Commission's operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed and recovered primarily through user charges. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Commission has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash Equivalents: Cash equivalents consist of short-term, liquid investments which are readily convertible into cash or which have maturity of 30 days or less.

Trade Accounts Receivable and Deferred Income: Operating revenues include rental income derived from leasing port property. Amounts due from certain lease agreements are billed in advance and recognition of related revenue is deferred and recognized over the appropriate lease term service period. Trade receivables are reported at an amount that is net of advance billings of \$358,000 and \$350,000 at December 31, 2004 and 2003.

Allowance For Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with collection policy. A year-end allowance for uncollectible accounts receivable of \$0 at December 31, 2004 and 2003.

Property and Equipment: Property and equipment are stated at cost, or fair market value at date of gift, if donated. Depreciation is charged as an operating expense using the straight-line method over the estimated useful lives of the respective assets. Construction in progress consists of the costs of construction contracts and direct engineering costs incurred in the design and construction of port properties. Projects are capitalized when substantially complete.

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land and harbor improvements consist of both depreciable and non-depreciable types of assets. Infrastructure assets are capitalized. Estimated useful lives used in computing depreciation on property and equipment are as follows:

	<u>Years</u>
Land improvements	5 - 50
Harbor improvements	25 - 40
Dock and mooring facilities	10 - 40
Buildings and structures	5 - 30
Machinery and equipment	5 - 20
Office furniture and equipment	5 - 10
Trucks and autos	5

Appropriations from the State of Indiana: Appropriations are made by the legislature of the State of Indiana on a biennial basis. The Commission typically has four years in which to obtain the State Budget Agency's approval and allotment. Once funds are allotted, the Commission must submit claims for the State Budget Agency's payment. The Commission records as a receivable in the financial statements only those claims that have been approved for the State Budget Agency's payment, but have not been paid to the Commission. A summary of appropriations follows:

<u>Biennium</u>	<u>Funds Approved</u>	<u>Funds Allotted</u>	<u>Allotted Funds Drawn</u>	<u>Allotted Funds Remaining</u>
97-98	\$ 6,800,000	\$ 6,800,000	\$ 6,800,000	\$ -
99-00	<u>8,540,000</u>	<u>7,960,000</u>	<u>7,210,000</u>	<u>750,000</u>
	<u>\$ 15,340,000</u>	<u>\$ 14,760,000</u>	<u>\$ 14,010,000</u>	<u>\$ 750,000</u>

Net Assets: The Commission has classified certain net asset categories as follows:

- Board Designated - The Board of Commissioners has designated \$10,800,000 of unrestricted net assets for working capital, risk management, and the renewal and replacement of Port assets.
- Restricted - The Commission received allocated grant funds of \$1,173,010 from the State of Indiana Counter-Terrorism and Security Council (CTASC) and the State Emergency Management Agency (SEMA) to support equipment for critical infrastructure protection at Indiana's three ports. This funding is provided by the U.S. Department of Homeland Security's Office of Domestic Preparedness (DHS/ODP) specifically for critical infrastructure protection.

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The Commission maintains its cash, cash equivalents and investments in accounts that are fully insured by the Federal Depository Insurance Corporation (FDIC) or by the Indiana Public Deposits Insurance Fund. Cash and cash equivalents include \$1,000,000 of certificates of deposit with maturities less than 30 days at December 31, 2004 and 2003.

Trustees in the Commission's name holds investments of the Commission. Certificates of deposit with maturities beyond 30 days are recorded as investments with balances of \$5,000,000 and \$5,011,146 at December 31, 2004 and 2003. Investment securities at December 31, 2004 and 2003, reported at cost that approximates market value, include U.S. Government mortgage securities, recorded at \$195 and \$3,461.

Indiana statute authorizes the Commission to invest in obligations of the U.S. Treasury and U.S. agencies and certificates of deposits, repurchase agreements, passbook savings, money market deposit accounts and negotiable order of withdrawal accounts of Indiana institutions.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Land	\$ 14,523,433	\$ 12,587,197
Land improvements	35,402,383	33,262,875
Harbor improvements	18,811,342	18,811,343
Docks and mooring facilities	32,108,204	29,215,463
Buildings and structures	16,570,941	16,301,311
Machinery and equipment	169,018	169,019
Office furniture and equipment	599,488	573,406
Trucks and automobiles	622,702	622,702
Construction in progress	<u>1,172,342</u>	<u>3,999,686</u>
	119,979,853	115,543,002
Accumulated depreciation	<u>(46,009,103)</u>	<u>(43,623,519)</u>
	<u>\$ 73,970,750</u>	<u>\$ 71,919,483</u>

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

2004 roll forward:

	<u>Fixed Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 111,543,316	\$ 3,999,686	\$ 115,543,002	\$ (43,623,519)
Additions	7,264,195	7,828,446	15,092,641	-
Transfers	-	(10,655,790)	(10,655,790)	-
Depreciation	-	-	-	(2,385,584)
Ending balance	<u>\$ 118,807,511</u>	<u>\$ 1,172,342</u>	<u>\$ 119,979,853</u>	<u>\$ 46,009,103</u>

2003 roll forward:

	<u>Fixed Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Accumulated Depreciation</u>
Beginning balance	\$ 104,598,642	\$ 2,374,958	\$ 106,973,600	\$ (41,262,200)
Additions	6,944,674	6,876,047	13,820,721	-
Transfers	-	(5,251,319)	(5,251,319)	-
Depreciation	-	-	-	(2,361,319)
Ending balance	<u>\$ 111,543,316</u>	<u>\$ 3,999,686</u>	<u>\$ 115,543,002</u>	<u>\$ (43,623,519)</u>

There were no dispositions or sales of property and equipment during the years ended December 31, 2004 and 2003.

NOTE 4 - CAPITAL AND OPERATING LEASES

Financing Lease Receivable: During 1994, the Commission, as lessor, entered into a direct financing lease for a building constructed by the Commission. Security agreements were obtained as collateral for the lease receivable. The Commission can repossess the structure if the customer defaults on the lease agreement. The components of the Commission's investment in the lease at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Future minimum lease payments receivable	\$ 1,984,872	\$ 2,195,655
Unearned interest income	<u>642,515</u>	<u>742,891</u>
Long-term net investment in direct financing lease	<u>\$ 1,342,357</u>	<u>\$ 1,452,764</u>

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 4 – CAPITAL AND OPERATING LEASES (Continued)

The future minimum lease payments to be received for this lease in each of the five succeeding years and thereafter are as follows:

Year Ending December 31,

2005	\$ 210,783
2006	210,783
2007	210,783
2008	210,783
2009	210,783
2010 – 2014	<u>930,957</u>
	<u>\$ 1,984,872</u>

Operating Leases Receivable: The Commission is engaged in leasing various properties to tenants under operating leases expiring over the next 1-34 years. The lease agreements include property rental and annual minimums on cargo tonnage at a tariff rate per ton based on the type of cargo shipped in and out of the ports.

The approximate future minimum lease payments to be received in each of the five succeeding years and thereafter under noncancelable operating leases are as follows:

Year Ending December 31,

2005	\$ 4,339,356
2006	4,125,499
2007	3,303,101
2008	2,744,897
2009	1,737,952
2010 - 2014	4,141,424
2015 - 2019	3,783,453
2020 - 2024	3,270,496
2025 - 2029	1,801,583
2030 - 2034	1,251,012
2035 - 2038	<u>1,000,809</u>
	<u>\$ 31,499,582</u>

Operating Lease Obligations: The Commission, as lessee, leases office space under an operating lease that expires in December 2007. Rent expense was \$88,319 and \$76,911 for 2004 and 2003. The minimum future lease payments for the office space are:

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 4 – CAPITAL AND OPERATING LEASES (Continued)

Year Ending December 31,

2005	\$ 100,838
2006	100,838
2007	<u>100,838</u>
	<u>\$ 302,514</u>

NOTE 5 - CONDUIT DEBT OBLIGATIONS

From time to time, the Commission has issued Port Revenue Bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are special obligations of the Commission payable from and secured solely by a pledge of debt service rentals. Principal and interest is payable from certain amounts payable to the Commission by the private-sector entity and the guarantor pursuant to the lease and guarantor agreement. Neither the Commission, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds beyond the resources provided by the related lease agreements. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2004 and 2003, there were three series of Port Revenue Bonds outstanding, with aggregate principal amounts of \$29,385,000 and \$29,520,000 including the following bond issues at December 31, 2004:

<u>Project and Series</u>	<u>Maturity</u>	<u>Outstanding Principal</u>
Indiana Port Commission, Port Refunding Revenue Bonds, Series of 1992 (Cargill Project)	Term bond payment in 2012	\$ 21,950,000
Indiana Port Commission Port Revenue Bonds, Series 2002 (Kosmos Cement Company Project)	Term bond payment in 2020	5,500,000
Indiana Port Commission Port Revenue Bonds, Series 1994 (American Commercial Marine)	Serial payments through 2007 and term bond payments through 2014	<u>1,935,000</u>
		<u>\$ 29,385,000</u>

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 6 - CONTINGENT LIABILITIES

In August 1996, a resident filed suit against the Commission and other defendants alleging that various structures erected in Lake Michigan, including, the breakwater which protects the Harbor at Burns Harbor/Portage, has caused erosion on the adjacent shoreline to an extent the plaintiff's shorefront property is being lost and other property has been damaged. The case was filed in the Porter County Superior Court. In addition, eighty-one other property owners had asserted similar claims. In April 1998, the court dismissed the action without prejudice for reasons that are not entirely clear. Outside Counsel is unable, in view of inherent uncertainties, to state an opinion whether additional litigation at a different level is either probable or remote, as such terms are defined in Paragraph 5 of the ABA Statement of Policy.

NOTE 7 - DEFERRED COMPENSATION BENEFITS

The Commission offers two deferred compensation plans to all its employees under plans administered by the Public Employees Benefit Services Corporation (PEBSCO) and Indiana Deferred Compensation (IDC), and each is established in accordance with Internal Revenue Code Section 457. Employees are permitted to defer a portion of their salary until future years. Only upon terminations, retirement, death, or an unforeseen emergency is the deferred compensation available to an employee. Federal House Bill 3448 mandated that effective January 1, 2000, all existing Internal Revenue Code Section 457 plan assets must be held in a qualified trust for the benefit of participants and their beneficiaries.

Because these assets are held by a custodian, for the specific benefit of participants and their beneficiaries, they are not reflected in the financial statements and are free from claims of Indiana Port Commission creditors. The fair market value of PEBSCO investments held in custodial funds for participants was \$411,605 and \$314,979 at December 31, 2004 and 2003. The fair market value of IDC investments held in custodial funds for participants was \$199,375 and \$177,651 at December 31, 2004 and 2003.

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)

The Commission contributes to PERF, an agent multiple employee public employee retirement system, which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana.

All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the Commission the right to contribute and govern most requirements of the system, including the benefits, which vest after 10 years of service. Employees who have reached fifty years of age may receive retirement benefits with 15 years of service. An employee may receive benefits at age sixty-five with 10 years of service.

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)
(Continued)

Employees are required to contribute 3% of their annual compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The Commission elected to make, on behalf of covered employees, the employees' contribution that may be financed by the employer. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

All assets of the plans are held by and invested by PERF. Investments are mainly in obligations of the U.S. Government, federal agencies and in equity securities.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERF on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employees. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan. However, PERF performed an actuarial valuation of the Commission's plan as of June 30, 1998 which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State of Indiana.

There is no pension benefit obligation information or information on assets available for benefits at cost or any analysis of funding disclosed in this report because no such computation was performed by PERF for the Commission for the years ended December 31, 2004 and 2003.

Payroll for employees covered by the plan for the years ended December 31, 2004 and 2003 was \$1,727,296 and \$1,687,807. The total payroll for the same period was \$1,730,652 and \$1,712,634.

(Continued)

INDIANA PORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 8 - PENSION PLAN - PUBLIC EMPLOYEE'S RETIREMENT FUND (PERF)
(Continued)

Pension Plan Information Relative to Contributions

<u>Year</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>	<u>Annual Covered Payroll</u>	<u>Percentage Employer Contributions to Covered Payroll</u>
2000	\$ 41,917	\$ 41,917	\$ 83,834	\$ 1,397,219	6.00%
2001	\$ 32,867	\$ 43,822	\$ 76,689	\$ 1,460,738	5.25%
2002	\$ 27,645	\$ 47,391	\$ 75,036	\$ 1,579,693	4.75%
2003	\$ 33,497	\$ 50,246	\$ 83,743	\$ 1,687,807	4.96%
2004	\$ 64,774	\$ 51,819	\$ 116,593	\$ 1,727,296	6.75%

SUPPLEMENTAL SCHEDULES

INDIANA PORT COMMISSION
SCHEDULE OF PORT INCOME FROM OPERATIONS,
Year ended December 31, 2004 with comparative totals for 2003

	<u>2004</u>					2003
	Burns Harbor Portage	Southwind Maritime Center	Clark Maritime Center	Central Support Services	IPC Total	IPC Total
Operating revenues						
Maritime services	\$ 1,220,099	\$ 422,371	\$ 427,991	\$ -	\$ 2,070,461	\$ 1,741,158
Facility rentals	2,574,078	696,860	483,303	-	3,754,241	3,393,005
Other user fees	222,874	22,045	170,541	-	415,460	379,195
FTZ operator fees	35,900	43,916	7,247	10,000	97,063	106,340
Other operating fees	<u>13,180</u>	<u>9,043</u>	<u>1,800</u>	<u>61,750</u>	<u>85,773</u>	<u>136,377</u>
Total operating revenues	4,066,131	1,194,235	1,090,882	71,750	6,422,998	5,756,075
Operating expenses						
Salaries and wages	366,037	224,070	268,300	924,745	1,783,152	1,764,509
Employee benefits, taxes and insurance	147,663	81,747	89,914	268,682	588,006	541,802
Employee travel	27,107	7,125	7,439	104,798	146,469	182,222
Temporarily hired services	-	-	6,205	-	6,205	15,477
Security services	132,040	385	1,437	-	133,862	148,463
Legal services	5,147	-	-	24,958	30,105	125,587
Accounting services	-	-	-	24,900	24,900	25,000
Computer services	-	-	-	30,969	30,969	24,834
Advertising and public relations	20,604	8,457	12,193	43,899	85,153	96,311
Association membership	21,451	4,034	3,741	27,552	56,778	63,936
Marketing outside services	3,727	2,863	1,379	30,745	38,714	23,224
Other professional services	94,315	5,494	6,580	90,358	196,747	1,007,198
Maintenance	100,829	100,173	40,427	12,221	253,650	196,482
Insurance	117,270	57,338	71,865	6,420	252,893	295,157
Utilities	53,009	30,685	7,420	138	91,252	112,424
Office supplies	35,566	12,481	15,623	75,886	139,556	144,199
Property rentals	-	-	(450)	88,319	87,869	77,911
Miscellaneous	<u>9,050</u>	<u>20,965</u>	<u>213</u>	<u>3,042</u>	<u>33,270</u>	<u>2,642</u>
Total operating expenses before net depreciation	1,133,815	555,817	532,286	1,757,632	3,979,550	4,847,378
Net depreciation	<u>1,362,658</u>	<u>580,967</u>	<u>394,102</u>	<u>47,857</u>	<u>2,385,584</u>	<u>2,360,476</u>
Total operating expenses	<u>2,496,473</u>	<u>1,136,784</u>	<u>926,388</u>	<u>1,805,489</u>	<u>6,365,134</u>	<u>7,207,854</u>
Income (loss) from operations	<u>\$ 1,569,658</u>	<u>\$ 57,451</u>	<u>\$ 164,494</u>	<u>\$ (1,733,739)</u>	<u>\$ 57,864</u>	<u>\$(1,451,779)</u>

INDIANA PORT COMMISSION
SCHEDULE OF ACTUAL OPERATING EXPENSES COMPARED TO BUDGET
Year ended December 31, 2004

	<u>Actual Expenses</u>	<u>Budgeted Expenses</u>	<u>Variance (Over) Under</u>
Salaries and benefits	\$ 2,377,363	\$ 2,544,012	\$ 166,649
Professional services	416,583	1,207,920	791,337
Marketing and advertising	270,336	350,748	80,412
Insurance	252,893	262,800	9,907
Facility Rental	87,869	103,020	15,151
Maintenance and utilities	344,902	377,220	32,318
Other office and administrative expenses	<u>229,604</u>	<u>222,810</u>	<u>(6,794)</u>
Total operating expenses	<u>\$ 3,979,550</u>	<u>\$ 5,068,530</u>	<u>\$ 1,088,980</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

The Members of the Indiana Port Commission
Indianapolis, Indiana

We have audited the financial statements of the Indiana Port Commission (Commission) as of and for the year ended December 31, 2004, and have issued our report thereon dated February 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and the Indiana State Board of Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
February 17, 2005